

**Improvements Are Needed in the Process  
and Information Used to Manage  
Workers' Compensation Claims**

**September 2003**

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DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

September 25, 2003

MEMORANDUM FOR CHIEF, AGENCY-WIDE SHARED SERVICES

*Gordon C. Milbourn III*

FROM: Gordon C. Milbourn III  
Assistant Inspector General for Audit (Small Business and  
Corporate Programs)

SUBJECT: Final Audit Report – Improvements Are Needed in the Process  
and Information Used to Manage Workers' Compensation  
Claims (Audit # 200310011)

This report presents the results of our review of the Internal Revenue Service's (IRS) Workers' Compensation Center (WCC). Our overall objective was to determine if the WCC timely and properly evaluated workers' compensation claims. We conducted this review as part of the Treasury Inspector General for Tax Administration's Fiscal Year (FY) 2003 Annual Audit Plan.

In summary, the WCC properly processed its workers' compensation cases for those injuries that occurred within the last 5 years (from 1998 to 2002). However, 50 percent of the Workers' Compensation costs are related to cases of injuries or illnesses that first occurred over 10 years ago. We reviewed a sample of these older cases (for which the date of injury was prior to FY 1991) and determined the WCC did not follow up annually as required by its own procedures. The WCC is not using certain capabilities of the Department of the Treasury's Safety and Health Information Management System (SHIMS), which could help the WCC to better manage the IRS Workers' Compensation Program. Also, the WCC performance measures addressing timeliness, cost avoidance, and lost production days are not reliable.

We recommended that the Associate Director, Centralized Activities Division, place greater emphasis on and develop clearer procedures for case management of older cases; ensure the SHIMS data fields are properly used and error reports are properly worked; and request modification to the SHIMS to produce needed reports. We also recommended that the Chief, Agency-Wide Shared Services, and the Chief Financial

Officer associate the compensation paid to disabled employees back to the responsible business/organizational units.

Management's Response: IRS management agreed with our report and has proposed corrective actions to address all of our recommendations. This includes establishing procedures for working old cases, coordinating efforts to assign compensation claims costs to work units, and better using the capabilities of SHIMS. In response to our recommendation on correcting the cost avoidance computer program to account for employees that return to work part-time, IRS management indicated that they will review FY 2003 reports and process corrections. While not stated in management's narrative response, the WCC advised us that it has revised its process to adjust the compensation data input into the program for those employees who returned to work part-time. We believe that this action should achieve the same effect as our recommendation. Management's complete response to the draft report is included as Appendix V.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Daniel R. Devlin, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.

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## Improvements Are Needed in the Process and Information Used to Manage Workers' Compensation Claims

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### Background

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The Internal Revenue Service (IRS) Workers' Compensation Center (WCC) is responsible for controlling and reviewing compensation claims for IRS employees, initiating efforts to return employees to work, and forwarding claimants' information to the Department of Labor's Office of the Workers' Compensation Program (OWCP). In Fiscal Year (FY) 2002, the IRS spent \$1.7 million to administer its Workers' Compensation Program and was charged \$43 million in compensation claims for disabled IRS employees.

The OWCP provides workers' compensation benefits for employees who experience workplace injuries or illnesses as provided in the Federal Employee Compensation Act (FECA).<sup>1</sup> The FECA is designed to provide medical benefits, income replacement, and certain supportive services to employees receiving work-related injuries or, in the case of death, survivor benefits to family members. It provides that an employee's regular pay may be continued for up to 45 calendar days of wage loss due to disability and/or medical treatment following a traumatic injury (this is known as "Continuation of Pay"). The intent of this provision is to avoid interruption in the employee's income while the Department of Labor evaluates the claim. If the claim is approved, under the FECA, claimants receive either 66 2/3 percent of their pay or 75 percent of their pay if they have dependents. Workers' compensation payments are not subject to Federal income tax.

The Employees' Compensation Fund finances the FECA program, which consists of money appropriated by the Congress. Agencies are assigned their portions of compensation charges annually. The Department of Labor Chargeback Report is the mechanism by which the costs of compensation for work-related injuries and deaths are assigned to employing agencies. Each year the OWCP furnishes each agency with a statement of payments made from the fund because of injuries or illnesses suffered by its employees.

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<sup>1</sup> 5 U.S.C. § 8101 et seq. (West Supp. 2003).

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The IRS uses the Department of the Treasury's Safety and Health Information Management System (SHIMS) to process workers' compensation claims. The SHIMS was implemented on October 1, 2001. It was designed to replace the paper accident claim reporting process with an electronic system that would allow claims to be submitted to the WCC and OWCP quickly. In addition, the SHIMS was expected to enable the WCC to provide safety and health information reports; track agency lost production days, costs, and timeliness; and monitor corrective actions and necessary follow-up actions.

IRS management noted that in FY 2002, the WCC operated with only 30 employees, which was a reduction of 21 percent from the 38 employees authorized in FY 2000. Moreover, the staff was required to provide more extensive safety information and statistics as requested by IRS executives and the Secretary of the Treasury, which further reduced available resources.

Our review was performed from April to August 2003 in the WCC in Richmond, Virginia. The audit was performed in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

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### **Follow-Up Actions Are Needed for Cases That Have Been Ongoing for Over 10 Years**

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The WCC staff generally processed claims timely, ensured that costs charged were for IRS employees only, and ensured that specialists were subjected to workload reviews. Because most of the Workers' Compensation costs are related to recent cases (within the last 5 years) or older cases (older than 10 years), we selected a random sample of 30 cases from each of these categories to determine whether the WCC case specialists completed appropriate evaluation and follow-up actions. Claims with costs during FY 2002 and relating to recent injuries (within the last 5 years – from 1998 to 2002) were properly controlled and worked. However, based on the sample of cases we reviewed related to injuries or illnesses that first occurred prior to FY 1991, the WCC did not follow up annually on these older cases as required by its own procedures. Cases related to injuries that occurred over 10 years ago account for \$21.4 million

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(50 percent) of the workers' compensation payments in FY 2002. Table 1 shows the percentage of FY 2002 costs (for IRS employees) that are the result of injuries that occurred in prior fiscal years.

**Table 1 – FY 2002 Workers' Compensation Costs**

| Date of Injury       | Number of Injuries | FY 2002 Total Costs | Percentage of Total Dollars |
|----------------------|--------------------|---------------------|-----------------------------|
| 0 – 5 years ago      | 2,054              | \$14,026,954        | 33%                         |
| 5 – 10 years ago     | 368                | \$7,460,390         | 17%                         |
| 10 or more years ago | 683                | \$21,381,912        | 50%                         |
| <b>Totals</b>        | <b>3,105</b>       | <b>\$42,869,256</b> | <b>100%</b>                 |

*Source: The SHIMS.*

One reason for the number of claimants who have remained on workers' compensation for more than 10 years is that the dollar amount of the benefits is often higher for workers' compensation than for retirement benefits. For example, under the Civil Service Retirement System, a Federal Government employee retiring with 30 years of service would be eligible for an annuity equal to 56 1/4 percent of his or her salary. A portion of this amount is subject to Federal income tax. However, under the FECA, a claimant receives either 66 2/3 percent of his or her pay or 75 percent of the pay if he or she has dependents. Workers' compensation payments are not subject to Federal income tax. Therefore, even though many of these claimants are eligible to retire, they instead elect to remain on workers' compensation. The Social Security Administration's Inspector General recommended in a report that the Social Security Administration work with the Department of Labor to develop proposals for Congressional consideration in modifying the FECA program to require that Federal Government employees apply for retirement benefits.<sup>2</sup>

We reviewed a random sample of 30 of the 522 cases with workers' compensation payments in FY 2002 for injuries

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<sup>2</sup> *The Social Security Administration's Management of Its Federal Employees' Compensation Act Program* (Reference Number A-13-99-91003, dated October 2001).

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that occurred prior to FY 1991. For 18 of the 30 cases we reviewed, there was no indication of WCC taking any actions to return the employees back to work or to verify disability. These 18 cases accounted for \$798,000 in year to date total compensation and medical payments, and 14 of these 18 cases were classified as "lost cause" cases. This classification means there is a very low possibility for improvement and return to work for the employees.

The WCC's procedure manual requires specialists to follow up on old claims (although "old" is not defined) at least once a year. The manual further states that procedures for working these old cases will be developed. However, as of July 2003, the procedures were not yet available. Without detailed procedures and guidelines, these cases may not be consistently worked and claimants could remain on WCC compensation rolls longer than they should.

There may be additional steps that should be taken on these cases. For example, 19 percent of the 683 active cases filed prior to FY 1993 were for "Mental Disorder or Emotional Stress." If the employee has been out for stress-related reasons for over 10 years, the cause of the stress may not have been the employee's job at the IRS.

One of the primary goals of the WCC is to work with the disabled employee's manager to return the employee to work. However, the longer an employee (claimant) is out, the more difficult it is for the WCC to return the employee to work. One reason for this is that IRS managers are often reluctant to take the disabled employee back after the employee has been out for an extended period of time because of concerns as to whether the employee will be productive. Moreover, there is little direct incentive for the unit manager to spend any significant effort in developing alternate work arrangements to return the employee to work because workers' compensation payments are applied to the IRS as a whole, and there are no procedures to allocate the costs associated with each disabled employee to his or her work unit. The Department of Labor recommends that Federal Government agencies "arrange to charge costs to



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the lowest organizational level practicable to make managers more aware of costs.”<sup>3</sup>

### Recommendations

1. The Associate Director, Centralized Activities Division, should develop Workers' Compensation Program policies and guidelines needed for case management activities, so that old cases are reviewed and proper actions are taken to determine fitness for return to work.

Management's Response: The WCC has developed policies and guidelines specifying case management activities for old claims and plans to present them to case managers during a continuing education meeting in September 2003.

2. The Chief, Agency-Wide Shared Services, and the Chief Financial Officer should establish procedures to assign workers' compensation costs to each claimant's work unit.

Management's Response: The WCC will coordinate with the Chief Financial Officer to develop procedures to assign compensation costs to each claimant's work unit.

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### The Workers' Compensation Center Could More Effectively Use the Safety and Health Information Management System

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The WCC does not use the SHIMS effectively to manage the Workers' Compensation Program. Moreover, the SHIMS does not provide the reports needed to help manage the Program.

Although the WCC staff originally developed the SHIMS, the project was taken over by the Department of the Treasury in mid-2001, and more emphasis was placed on reporting safety incidents than on controlling and processing worker's compensation claims. The WCC was required to begin using the SHIMS in October 2001 even though scheduled testing of the system had not taken place. The specialists at the WCC experienced problems with some of the fields on the SHIMS and are still in the process of trying to fully use the capabilities of the SHIMS. As a result, they still use other systems and processes to work the cases in their inventories. The WCC management team informed us

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<sup>3</sup> See the Department of Labor publication, *A Handbook for Employing Agency Personnel* (Publication Number CA-810).

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that they want the specialists to fully use the SHIMS; they are migrating away from the other systems and processes, but are unsure when they will rely solely on the SHIMS for their case processing.

### **Continuation of Pay fields**

The WCC should use the Continuation of Pay fields in the SHIMS to ensure that employees do not receive this pay for more than the maximum number of days allowed.

However, the WCC staff is not currently using the Continuation of Pay fields. Instead, they manually review a printed Treasury Integrated Management Information System (TIMIS)<sup>4</sup> report of Continuation of Pay amounts paid in each pay period.

The SHIMS could be used to systemically notify the WCC of cases where an employee is claiming Continuation of Pay after the 45 calendar days of eligibility has expired. The employee will still receive Continuation of Pay (if approved by his or her manager), but the SHIMS will notify the WCC staff that the employee's pay may need to be corrected by converting the Continuation of Pay code to another timekeeping code. On the other hand, the TIMIS will not notify a manager that an employee has been in Continuation of Pay status for more than 45 calendar days. While the current manual method may identify cases where ineligible employees are receiving Continuation of Pay, manual processes are usually more subject to errors.

### **Other SHIMS fields that are not fully used**

There are also other SHIMS fields the WCC staff does not use consistently that could help them better manage the Workers' Compensation Program. If these fields were used, the WCC staff and managers would not have to rely on the case files and other systems that they currently use. The fields that are often not used include:

**Assessment Code** – this field allows the specialists at the WCC to document their initial assessment of each case. The Assessment Code represents assessments of job offer

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<sup>4</sup> The TIMIS is the official automated system for storing and tracking employee personnel and payroll data.

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potential, rehabilitation potential, and fraud potential. Of the 1,044 cases with costs processed at the WCC during FY 2002, only 22 (2 percent) had an entry in the Assessment Code field.

**Management Code** – this field gives the current status of the case. The Management Code used in this field represents the different pending and requested actions. Of the 1,044 cases with costs that were submitted and processed at the WCC during FY 2002, only 16 (2 percent) cases had an entry in the Management Code field.

**Light Duty** – the SHIMS has several fields devoted to light duty work such as instances of light duty, most recent light duty, and light duty status. These fields are rarely used; only 172 cases in the entire SHIMS database (37,741 cases) had a value in 1 or more of the light duty fields. Since one of the primary responsibilities of the WCC is to return the employee to work as soon as possible (even if only on a part-time basis), these types of data could allow the IRS to better determine the effectiveness of its Workers' Compensation Program.

**Action Reminder and Action Completion Dates** – the WCC staff also does not use the action reminder and action completion dates on the SHIMS. Only 5 of the 1,249 cases where compensation cost were paid in FY 2002 had dates in these fields. These two fields are intended to be used as a reminder and documentation that certain actions were taken. Case specialists are using scheduling software<sup>5</sup> (outside of the SHIMS) for reminder actions and dates. They do so because the SHIMS does not provide an e-mail or pop-up reminder for these dates. The SHIMS could create a weekly report identifying the cases with expired follow-up dates; but, because the dates are not being recorded in the SHIMS, the weekly reports would not be an effective management tool to ensure timely case actions.

**Case File Number** – each claim is recorded on the SHIMS and a paper file is created and assigned a Case File Number. Of the 3,109 cases with costs incurred in FY 2002 (claims

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<sup>5</sup> Microsoft Outlook Task Manager.

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filed during any FY),<sup>6</sup> we found that 158 (5 percent) did not have a Case File Number input to the SHIMS. When the case file number is not input to the SHIMS, the WCC staff must access another system to determine the case file number before locating the actual case file.

### **SHIMS management reports**

The SHIMS does not provide the WCC with complete management reports. The reports on the SHIMS address only medical and compensation costs, claims by bureau location, and claims assigned to each of the specialists. The SHIMS reports are not sufficient to fully manage the Workers' Compensation Program.

Because of the limited number of reports available from the SHIMS, the WCC creates its own management reports from an extract of SHIMS data. The WCC takes the records from the SHIMS and converts the information to a database program.<sup>7</sup> An analyst queries and produces management reports from this program. The reports calculate performance measures and are used to ensure the completeness of the data input to the SHIMS. However, we identified concerns with the way the reports are produced and found that the specialists are not correcting inaccurate data identified in error reports.

Because these reports are produced in a stand-alone database program using an extract from the SHIMS, the potential for extract and analysis errors is increased. Additionally, the WCC is reliant on a single employee who understands the extract and analysis process.

WCC procedures require the WCC staff to correct errors identified in weekly error reports. We obtained the weekly error report for January 27, 2003, and compared it to information in an extract from the SHIMS as of April 18, 2003. The WCC had 12 weeks to correct the errors identified. Despite the fact that the errors were on 12 weekly error reports, the WCC did not correct

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<sup>6</sup> We assumed that if a case had current year costs, there should be a case file with supporting documentation.

<sup>7</sup> Microsoft Access.

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36 (13 percent) of the 287 errors initially identified on the January 27, 2003, weekly error report.

### **Recommendations**

The Associate Director, Centralized Activities Division, should:

3. Ensure appropriate SHIMS fields are used to better manage the Workers' Compensation Program. Proper use of the SHIMS would enable management to more efficiently assess cases using SHIMS data and help ensure that only eligible employees receive benefits such as Continuation of Pay.

Management's Response: The WCC has completed the input of missing file numbers and has submitted requests for automated procedures to work Continuation of Pay exceptions and system enhancements. The WCC will also update all new open cases to include the codes specified in this report.

4. Request that the Department of the Treasury make changes to the SHIMS so that it produces reports that the WCC needs to manage the IRS Workers' Compensation Program.

Management's Response: The WCC will determine what reports are needed to manage the program and will submit new suggestions through the Associate Director, Centralized Activities Division.

5. Ensure the weekly error reports are worked and all errors fully resolved.

Management's Response: The WCC will work to resolve all previously existing errors and/or omissions.

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### **The Accuracy of Certain Performance Measures Needs to Be Improved**

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The Internal Revenue Manual<sup>8</sup> states that balanced measures are used by the IRS to assess organizational performance at both the strategic and operational levels. These measures are used to assess the effectiveness of specific programs; therefore, it is important that the measures are valid so that decision making is based on accurate, reliable data.

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<sup>8</sup> Section 1.5.1.5., dated October 1, 2000.

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We reviewed the WCC performance measures and identified problems with the calculations for the following measures:

- Timeliness.
- Cost avoidance.
- Lost production days.

These inaccuracies reduce the ability of the IRS to properly assess and improve the WCC's processes and productivity. Management was unaware of these problems with the data they use to assess the Workers' Compensation Program.

### **Timeliness measure**

The WCC reported that it processed 74 percent of its cases timely (within the 5 calendar day goal that the WCC set for itself) during FY 2002. However, this measure cannot be relied upon to determine the amount of time it takes the WCC to process workers' compensation claims because of inconsistencies with the beginning date entered into the SHIMS and the frequent omission of the ending date.

The beginning date that the WCC uses for its timeliness measure is the WCC receipt date field on the SHIMS. Some WCC specialists would input the date that the WCC received the original claim documentation with original signatures, while others would input the date they received enough information (via a faxed copy or e-mail) to process the claim. We analyzed the 2,917 workers' compensation cases that were submitted and processed during FY 2002; 379 had a date input into the "date fax received" field as well as the "WCC receipt date" field. We analyzed these 379 cases and found that in 273 (72 percent) of the cases the date the fax was received was prior to the WCC received date. The WCC staff should be using the earliest date that they receive the information for the case, whether it is an original document with signatures or a faxed copy.

The WCC uses the date it sends the case through its data verification process (known as Electronic Data Interchange) as the ending date for the timeliness calculation. This field was blank in 183 (8 percent) of the 2,257 cases that went to

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the Department of Labor during FY 2002. These 183 cases were not included in the WCC timeliness calculation.

The WCC procedure manual does not specify which date the specialists should input to the SHIMS as the received date. In addition, the managerial workload reviews by the case managers at the WCC do not include a review of the data WCC employees input to the SHIMS.

### **Cost avoidance measure**

We estimate that the WCC cost avoidance measure is overstated by \$2.4 million (18 percent). This overstatement was caused by the following factors:

- The cost avoidance amount was not reduced in cases where the claimant returned to work part-time.
- Cases where the claimant did not return to work were included.
- Cost avoidance was claimed for a case in which the WCC had no direct impact on the claimant leaving the workers' compensation rolls.

The majority of the cost avoidance measure for FY 2002, \$15.5 million (97 percent) of the \$16 million, is based on those cases where the claimant was dropped from the Department of Labor workers' compensation rolls because the employee returned to work or for other reasons. These cost avoidance amounts are the largest because the WCC includes in the measure not only the current year savings but also a projection of future years' savings based on the life expectancy of the claimants. The WCC makes the assumption that if it had not intervened, the employee would have remained on workers' compensation for the remainder of his or her life. The WCC is not able to estimate the number or dollar amount of the cases where an employee would have returned to work on his or her own without the involvement of the WCC.

For FY 2002, the WCC claimed cost avoidance on a total of 34 cases where the claimant was dropped from the Department of Labor workers' compensation rolls. We identified nine instances where the WCC overstated the cost avoidance. In five of these nine cases, the claimant returned

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to work but only part-time. The WCC procedures require that the cost avoidance figures in these cases be adjusted to reflect the fact that the IRS is still paying some workers' compensation to these employees. The WCC staff believed that the computer program used to calculate cost avoidance adjusted the cost avoidance in cases where the claimant returned to work part-time. However, the computer program does not make the adjustment. Consequently, the WCC erroneously claimed full cost avoidance for these cases.

For three of the nine cases, the WCC claimed cost avoidance, but the claimants remained on the workers' compensation rolls. In one case, the claimant appealed the decision and was placed back on the workers' compensation rolls. In the other two cases, the claimants simply never returned to work. In all three of these cases, the full cost avoidance was not realized. The WCC procedure for appealed cases is for the specialists to resubmit the cost avoidance input form when the claimant returns to the compensation rolls, so that the WCC cost avoidance figure can be updated. The specialist did not resubmit the form in the one case. In the other two cases, the specialist at the WCC should not have submitted, and the WCC manager should not have approved, the cost avoidance claims because the employees did not return to work.

In the remaining case, the WCC claimed cost avoidance for a case in which it had no direct impact on the claimant's leaving the workers' compensation rolls. In this case, the claimant died and thus left the workers' compensation rolls. The cost avoidance form should not have been submitted and approved.

### **Lost production days measure**

The WCC uses the sum of the number of days an employee has received Continuation of Pay (which lasts up to 45 calendar days) and the subsequent number of days of workers' compensation paid to determine the number of lost production days. The WCC reported the average lost production days for FY 2002 was 132 days. However, the lost production days measure is not accurate because it does not include all instances of employees receiving



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Continuation of Pay, and includes duplicate compensation data.

The Continuation of Pay eligibility field is not always used by the WCC and as a result is not always current. If the Continuation of Pay eligibility indicator on the SHIMS is set at "No," or if a claimant appears on the SHIMS twice with both records showing Continuation of Pay eligibility, the SHIMS systemically prevents the Continuation of Pay hours from uploading. There were approximately 350 instances during FY 2003 in which the Continuation of Pay data did not upload to SHIMS due to these problems. As a result, the SHIMS does not contain complete Continuation of Pay information, and the lost production days measure is understated because it does not include these amounts.

The duplicate compensation data on the SHIMS resulted in an overstatement of compensation days and lost production days. The cause was that data with compensation for 1 pay period were manually uploaded twice, resulting in 944 records on the system in FY 2002 with duplicate compensation data. This duplicate information appeared only on the SHIMS and not on the Department of Labor system, so claimants did not receive duplicate benefits.

### **Recommendations**

The Associate Director, Centralized Activities Division, should:

6. Establish a policy on the input of the received date and Continuation of Pay fields and implement a process to verify that the dates used in the timeliness calculations are correct.

Management's Response: The WCC has established policies and procedures for input of receipt dates and Continuation of Pay fields.

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7. Correct the cost avoidance computer program so that the cost avoidance amount is adjusted for employees that return to work part-time.

Management's Response: The WCC will review all FY 2003 reports and process any necessary corrections.

Office of Audit Comment: While not stated in management's response, the WCC advised us that it has revised its process to adjust the compensation data input into the program for those cases where the employees returned to work part-time. We agree with this alternate course of action; it should achieve the same effect as our recommendation.

8. Evaluate the status of cases in which cost avoidance is claimed to determine whether cost avoidance is the result of actions taken by the WCC, and ensure each employee has returned to work.

Management's Response: The WCC has reviewed and corrected all of the FY 2002 cost avoidance cases and will conduct a similar review of the FY 2003 report. The WCC will also review the procedures for the cost avoidance reporting and submit any findings to the Associate Director, Centralized Activities Division, for review and possible implementation.

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### **Appendix I**

#### **Detailed Objective, Scope, and Methodology**

The overall objective of this review was to determine whether the Internal Revenue Service's (IRS) Workers' Compensation Center (WCC) timely and properly evaluated workers' compensation claims. To do so, we:

- I. Determined if the WCC procedures and guidelines for processing workers' compensation claims are effective.
  - A. Analyzed the WCC database for Fiscal Year (FY) 2002 to determine if the WCC is receiving Federal Employee's Notice of Traumatic Injury and Claim for Continuation of Pay/Compensation Form (Form CA-1) and Notice of Occupational Disease and Claim for Compensation Form (Form CA-2) within 2 workdays of written receipt of the Form from the business unit manager, as required by Department of Labor Office of Workers' Compensation Program (OWCP).
  - B. Analyzed the WCC database for FY 2002 to determine if the WCC is submitting each Form CA-1 and CA-2 to the OWCP within 10 workdays of the manager's receipt of the notice of injury.
  - C. Determined how the WCC monitors the processing, maintenance, and management of workers' compensation claims.
  - D. Selected a random sample of 30 of the 433 cases related to injuries that occurred within the last 5 years (1998 to 2002), and 30 of the 522 cases related to injuries that occurred prior to 1991, to determine whether the WCC case specialists completed appropriate evaluation and follow-up actions. These two categories were selected because they account for most of the Workers Compensation costs.
  - E. Determined whether the Department of Labor Chargeback Report is reviewed to ensure that only IRS employees are on the report.
  - F. Determined if case/workload reviews are conducted at the WCC to ensure information is accurate on the Department of the Treasury's Safety and Health Information Management System (SHIMS).<sup>1</sup>
  - G. Identified the total cost of the Workers' Compensation Program and determined if the Program is self-supporting.

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<sup>1</sup> SHIMS is the Department of the Treasury's electronic filing program for workers' compensation claims and safety incident reporting.

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- II. Determined if the SHIMS database is a complete and accurate reflection of the information in workers' compensation case files.
  - A. Identified the key fields on the SHIMS that the WCC uses to monitor its Workers' Compensation Program and assessed the completeness and validity of the data within these fields.
  - B. Evaluated the completeness and validity of the remaining fields in the SHIMS database.
  - C. Evaluated the actions that the WCC has taken to ensure the accuracy of the SHIMS database.
- III. Determined if the WCC performance measures accurately reflected the success of the Workers' Compensation Program.
  - A. Contacted the Department of Labor's OWCP and identified the measures it uses, including the data definitions of the measures to determine the success of Federal Government agencies in processing workers' compensation claims.
  - B. Researched the private sector and identified performance measures used to monitor its Workers' Compensation Programs.
  - C. Reviewed the definitions of each of the measures the WCC uses to measure its Workers' Compensation Program and determined if they logically and accurately represent the results of the actions taken by the WCC.

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**Appendix II**

**Major Contributors to This Report**

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Michael E. McKenney, Director

Kevin P. Riley, Audit Manager

David P. Robben, Senior Auditor

Joseph Smith, Senior Auditor

Gene A. Luevano, Auditor

**Improvements Are Needed in the Process and Information  
Used to Manage Workers' Compensation Claims**

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**Appendix III**

**Report Distribution List**

Commissioner C  
Deputy Commissioner for Operations Support OS  
Chief Financial Officer OS:CFO  
Deputy Chief, Agency-Wide Shared Services OS:A  
Director, Personnel Services OS:A:PS  
Associate Director, Centralized Activities Division OS:A:PS:C  
Chief Counsel CC  
National Taxpayer Advocate TA  
Director, Office of Legislative Affairs CL:LA  
Director, Office of Program Evaluation and Risk Analysis RAS:O  
Office of Management Controls: OS:CFO:AR:M  
Audit Liaison: Chief, Agency-Wide Shared Services OS:A

## **Improvements Are Needed in the Process and Information Used to Manage Workers' Compensation Claims**

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### **Appendix IV**

#### **Outcome Measures**

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to the Congress.

##### Type and Value of Outcome Measure:

- Protection of Resources – Actual; \$798,000 in compensation and medical expenses paid on 18 cases (see page 2).

##### Methodology Used to Measure the Reported Benefit:

For 18 of the 30 cases we reviewed, there was no indication of the Workers' Compensation Center (WCC) taking any actions to return the employees to work or to verify disability – 14 of these 18 cases were classified as “lost cause” cases. Through Fiscal Year (FY) 2002, the amount of compensation and medical expenses paid on these 18 cases was \$798,000. We used the actual year to date amount paid to each individual as shown on the Safety and Health Information Management System.

##### Type and Value of Outcome Measure:

- Reliability of Information – Actual; 9 cases for which the Workers' Compensation Center (WCC) staff overstated the cost avoidance achieved by approximately \$2.4 million (see page 9).

##### Methodology Used to Measure the Reported Benefit:

For FY 2002, the WCC claimed cost avoidance on a total of 34 cases where the claimant was dropped from the Department of Labor's workers' compensation rolls. We reviewed all 34 cases and determined that for 9 the cost avoidance amount was incorrect. To arrive at our figure, we totaled the amount of erroneous cost avoidance claimed on the nine cases.

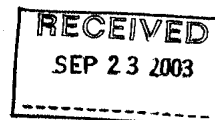
## Improvements Are Needed in the Process and Information Used to Manage Workers' Compensation Claims

Appendix V

### Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224



SEP 23 2003

MEMORANDUM FOR GORDON C. MILBOURN III  
ASSISTANT INSPECTOR GENERAL FOR AUDIT

FROM: *Richard J. Cronin*  
Director, Personnel Services

SUBJECT: Draft TIGTA Audit Report #2003-10-011, Improvements  
Are Needed in the Process and Information Used to  
Manage Workers' Compensation Claims, Dated  
August 22, 2003

I have reviewed the above subject and agree with it. Attached are corrective action plans that address each recommendation. Also, we have resolved four corrective actions associated with the recommendations.

As noted during the closing conference several recommendations require Department of Treasury action; particularly concerning the Safety and Health Information Management System (SHIMS) program, which is owned and managed by Treasury. We have, prior to this report, implemented initiatives that include:

- Developed and/or updated policies, directives, and system coding procedures.
- Conducted SHIMS continuing education sessions to review existing and new procedures.
- Developed system reports and applications for employees and management to monitor input accuracy of codes and dates (Continuation of Pay (COP), case assessment, case management, light duty, case file number, action reminder and action completion).
- Initiated a new process requiring the input of data into the agency's timekeeping system to calculate COP eligibility time frames. While this feature is separate from SHIMS, it will help reduce the number of erroneous COP payments and eliminate many of the exceptions that currently have to be resolved by the database administrator.
- Secured date forecaster tools for all HR specialists use to ensure the selection of correct COP dates.



## **Improvements Are Needed in the Process and Information Used to Manage Workers' Compensation Claims**

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- Updated cost avoidance reporting procedures and provided written procedures to all Human Resources Specialists.
- Reviewed all FY 2002 cost avoidance reports and made necessary adjustments to correct amounts shown for employees returning to work part-time and to ensure that all return to work actions reports resulted from action taken by the WCC staff. Please note that future adjustments will be made only within the current fiscal year of the reported cost avoidance due to administrative burden involved in continuously monitoring prior year cost avoidance statistics for possible adjustments.
- Established an analyst/quality reviewer position responsible for regular and timely system and case reviews to enhance and maintain high quality case management.

If you have additional questions, please call me at (202) 622-6300. For matters addressing audit follow-up, please call Greg Rehak at (202) 622-3702.

Attachment

## **Improvements Are Needed in the Process and Information Used to Manage Workers' Compensation Claims**

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### **ATTACHMENT**

**RECOMMENDATION 1:** The Associate Director, Centralized Activities Division (CAD) should develop Workers' Compensation Program policies and guidelines needed for case management activities, so that old cases are reviewed and proper actions are taken to determine fitness for return to work.

**CORRECTIVE ACTION:** WCC has developed policies and guidelines specifying case management activities for old claims. These guidelines will be shared and discussed with case managers during the September 23-25, 2003 SHIMS continuing education meeting.

**COMPLETED:** September 22, 2003

**RESPONSIBLE OFFICIAL:** Associate Director, CAD, AWSS

## **Improvements Are Needed in the Process and Information Used to Manage Workers' Compensation Claims**

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**RECOMMENDATION 2:** The Chief, Agency-Wide Shared Services, and the Chief Financial Officer should establish procedures to assign workers' compensation costs to each claimant's work unit.

**CORRECTIVE ACTION:** WCC will contact the IRS CFO's office to initiate a meeting between Agency-Wide Shared Services and the CFO to develop procedures and recommendations to resolve this recommendation.

**COMPLETED:** September 19, 2003

**RESPONSIBLE OFFICIAL:** Associate Director, CAD, AWSS

## **Improvements Are Needed in the Process and Information Used to Manage Workers' Compensation Claims**

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**RECOMMENDATION 3:** The Associate Director, CAD should ensure appropriate SHIMS fields are used to better manage the Workers' Compensation Program. Proper use of the SHIMS would enable management to more efficiently assess cases using SHIMS data and help ensure that only eligible employees receive benefits such as Continuation of Pay.

**CORRECTIVE ACTION 1:** The fields specified in the audit report include the following:

1. COP Fields - WCC will prepare a formal memorandum through e-mail request to Neil Hines, SHIMS COTR, for automated procedures for working COP exceptions.
2. Action Reminder Date and Action Completion Date – WCC has submitted a request for a system enhancement to address this recommendation.
3. Case File Number – WCC has completed input of missing file numbers.

**COMPLETED:** September 19, 2003

**CORRECTIVE ACTION 2:** The field specified in the audit report include the following: Case Assessment, Case Management and Light Duty Codes – All open claims will be updated to include these codes.

**PROPOSED COMPLETION DATE:** December 31, 2003

**RESPONSIBLE OFFICIAL:** Associate Director, CAD, AWSS

**CORRECTIVE ACTION MONITORING PLAN:** The HR Analyst/Quality Review employee will provide reviews and recommended corrections during case monitoring. The Chief WCC will make random monthly reviews of SHIMS and provide the results to the Associate Director.

## Improvements Are Needed in the Process and Information Used to Manage Workers' Compensation Claims

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**RECOMMENDATION 4:** The Associate Director, CAD should request that the Treasury Department make changes to SHIMS so that it produces the reports the WCC needs to manage the IRS Workers' Compensation Program.

**CORRECTIVE ACTION:** WCC will review SHIMS reports and determine what report(s) are needed to manage the program without generating, if feasible, external reporting applications. WCC will submit these new suggestions as a separate enhancement request through the Associate Director, CAD.

**PROPOSED COMPLETION DATE:** May 1, 2004

**RESPONSIBLE OFFICIALS:** Associate Director, CAD, AWSS, and the Department of Treasury

**CORRECTIVE ACTION MONITORING PLAN:** The Chief WCC will provide monthly updates on all enhancement requests to the Associate Director.

## **Improvements Are Needed in the Process and Information Used to Manage Workers' Compensation Claims**

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**RECOMMENDATION 5:** The Associate Director, CAD should ensure the weekly error reports are worked and all errors fully resolved.

**CORRECTIVE ACTION:** All previously existing errors and/or omissions will be worked and resolved.

**PROPOSED COMPLETION DATE:** October 31, 2003.

**RESPONSIBLE OFFICIAL:** Associate Director, CAD, AWSS

**CORRECTIVE ACTION MONITORING PLAN:** WCC technical section chiefs will monitor this action and direct responsible specialists to correct errors. Human Resource analyst(s) who prepare the reports will analyze them weekly for any unresolved errors. This data will be provided for the Chief, WCC to further monitor and monthly results will be provided to the Associate Director.

## **Improvements Are Needed in the Process and Information Used to Manage Workers' Compensation Claims**

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**RECOMENDATION 6:** The Associate Director, CAD should establish policy on the input of the received date and Continuation of Pay fields and implement a process that would verify that the dates used in its entries are correct.

**CORRECTIVE ACTION:** WCC has established policies and procedures for input of receipt dates and COP fields.

**COMPLETED:** September 15, 2003

**RESPONSIBLE OFFICIAL:** Associate Director, CAD, AWSS

**CORRECTIVE ACTION MONITORING PLAN:** WCC technical section chiefs and analysts will monitor this action by reviewing of error reports and conducting through case reviews. Results will be shared with WCC managers and Branch Chief, and monthly results will be provided to the Associate Director.

## **Improvements Are Needed in the Process and Information Used to Manage Workers' Compensation Claims**

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**RECOMMENDATION 7:** Correct the cost avoidance computer program so that the cost avoidance amount is adjusted for employees that return to work part-time.

**CORRECTIVE ACTION:** WCC will review all FY2003 reports and process any necessary corrections.

**PROPOSED COMPLETION DATE:** November 1, 2003

**RESPONSIBLE OFFICIAL:** Associate Director, CAD, AWSS

**CORRECTIVE ACTION MONITORING PLAN:** The analyst responsible for this activity will submit a summary of any adjustments to the Chief, WCC, including cost avoidance reports indicating changes for each action.



## Improvements Are Needed in the Process and Information Used to Manage Workers' Compensation Claims

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**RECOMMENDATION 8:** Evaluate the status of cases in which cost avoidance is claimed to determine whether cost avoidance is the result of actions taken by WCC, and ensure each employee has returned to work.

**CORRECTIVE ACTION:** WCC reviewed and corrected all FY2002 return to work and dropped from the rolls reports and a similar review will be conducted FY 2003 reports. WCC will also reassess the process of cost avoidance reporting and will submit findings to the Associate Director, CAD for review and possible implementation.

**PROPOSED COMPLETION DATE:** November 1, 2003

**RESPONSIBLE OFFICIAL:** Associate Director, CAD, AWSS

**CORRECTIVE ACTION MONITORING PLAN:** The Chief, WCC will monthly review all cost avoidance actions to ensure appropriate follow-up occurred. Certification of the review and cost avoidance figures by the Branch Chief will be provided monthly to the Associate Director.